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EX PARTE OR LATE FILED

NYNEX

October 9, 1996

Ex Parte

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, N.W. - Room 222
Washington, D.C. 20554

Re: CC Docket No. 96-45

Dear Mr. Caton:

Today, Frank Gumper, Stacey Chaney, and I, representing NYNEX, spoke via telephone with Mark Long, Economic Analyst with the Florida Public Services Commission and member of the Joint Board Staff, regarding the item captioned above. The attached material formed the basis of the discussion during the call.

Any questions on this matter should be directed to me at either the address or the telephone number shown above.

Sincerely,

Ken. Rust

Attachment

cc: M. Long (letter only)

NYNEX Recycles

NYNEX Proposal for Universal Service

Post 96-98 Interconnection Order

October 7, 1996

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What is the Problem?

- Current system of massive cross subsidies is incompatible with the Act and FCC Interconnection Order
- Historical use of separations process to support local rates needs to be addressed.
- FCC Interconnection Order requires rapid action.

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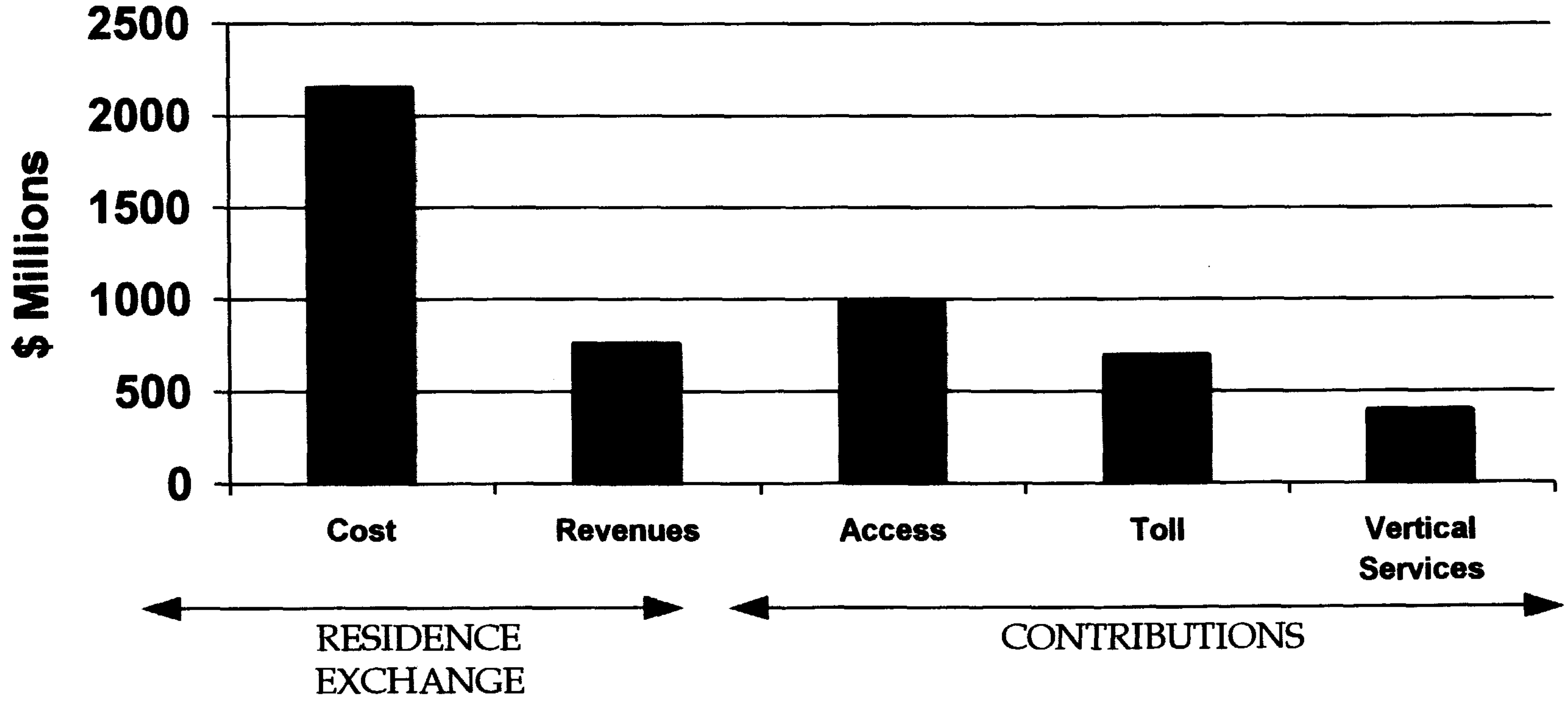
Existing Universal Service Support System

NYNEX New York Revenue/Cost Study



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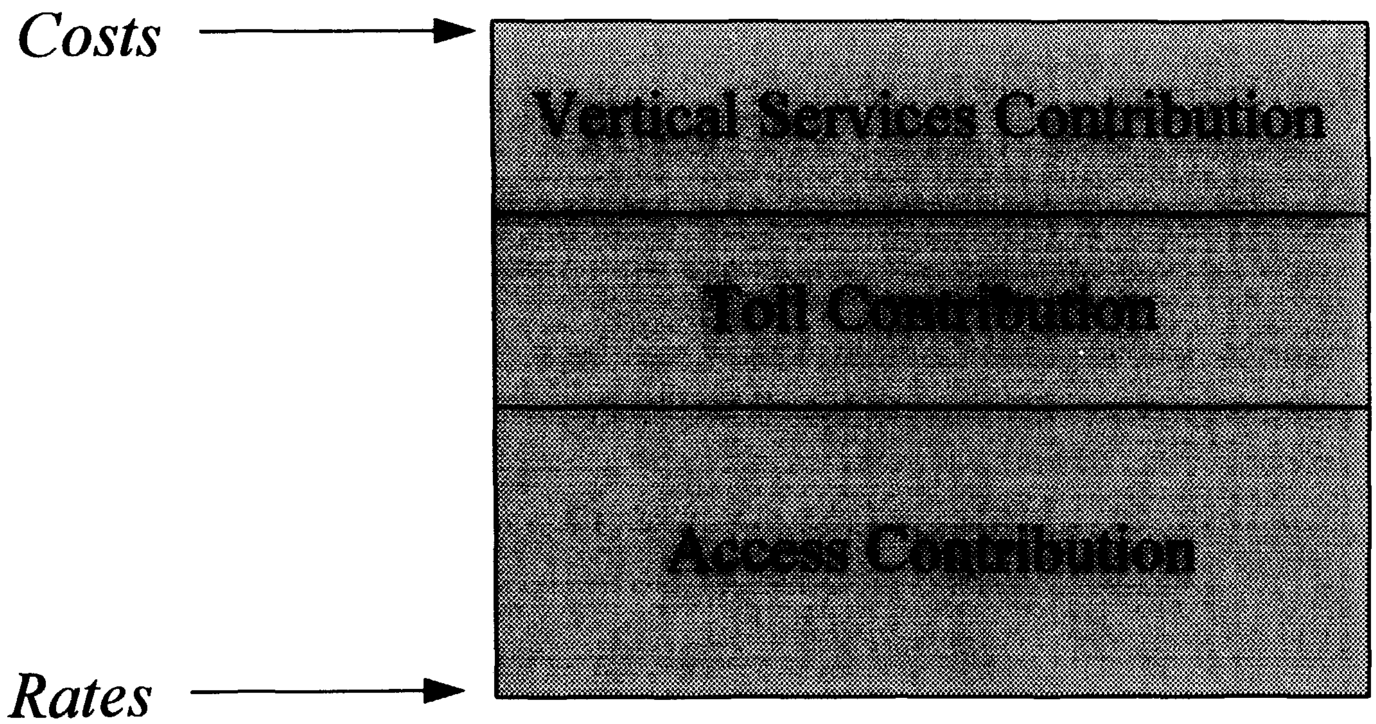
What Do We Mean by Actual Costs?

Actual costs include:

- NYNEX's current expenses of running its network and providing service
- Depreciation
- Taxes
- Interest on debt
- Cost of equity capital

Existing Intrastate Contributions to Residence Exchange Service



FCC policy adopting TELRIC potentially erodes these contributions.

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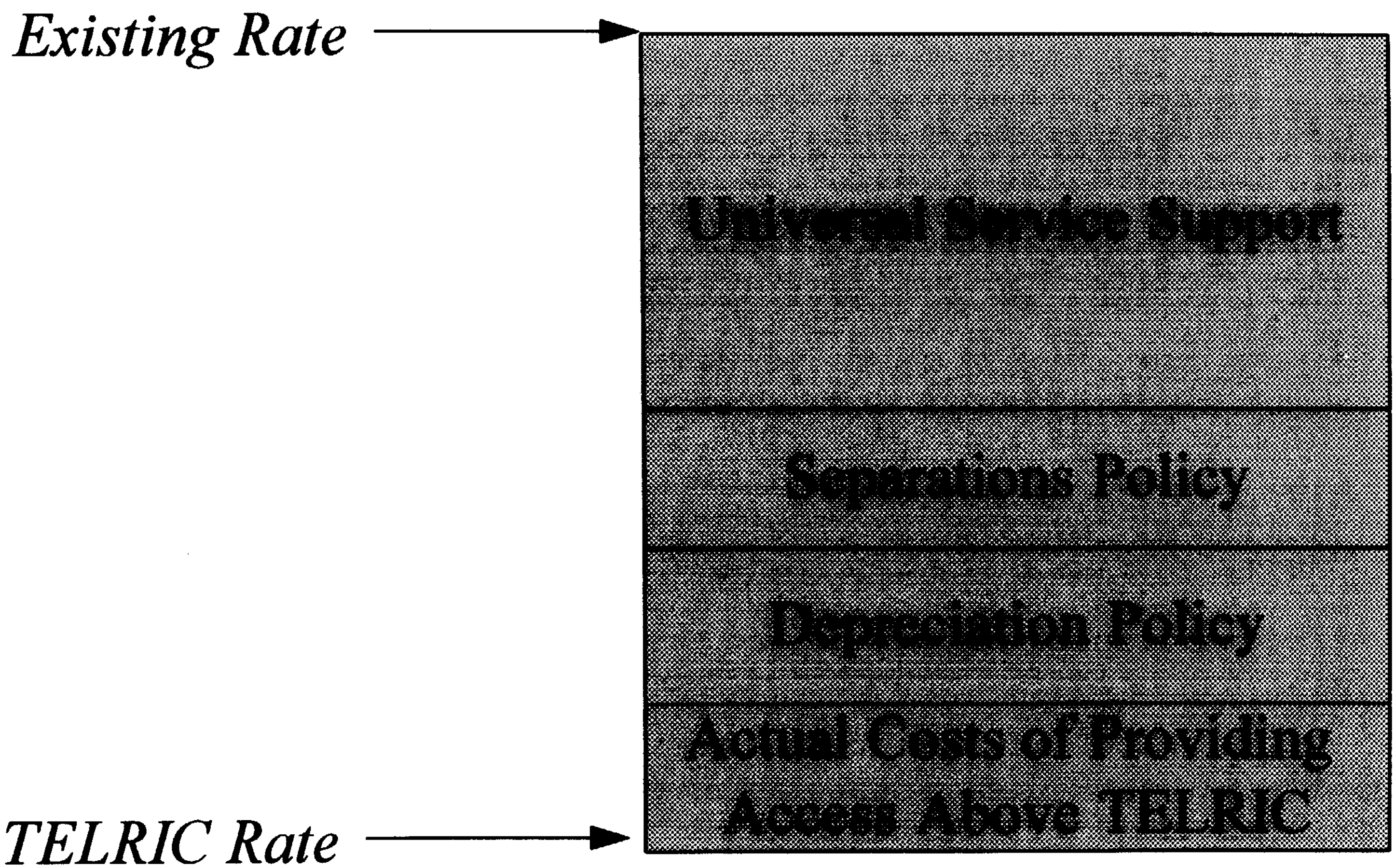
Relationship Between Existing Interstate Access Rates and TELRIC Rates



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Percent Costs Allocated to Interstate Jurisdiction

STATES:

New York: 27.1%
Massachuestts: 27.3%
New Hampshire: 31.4%
Vermont: 30.1%
Maine: 27.5%
Rhode Island: 27.8%

NYNEX: 27.4%

RBOCS:

Ameritech: 24.0%
Bell Atlantic: 27.8%
Bell South: 24.7%
PacBell: 22.1%
SBC: 25.7%
USWest: 27.5%

NATIONAL AVERAGE: 25.7%

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One Solution: Fix Separations and Push Costs Back to Intrastate Jurisdiction

- Lengthy process
- Contentious - compounds State problem
- Doesn't address mandate of the Act to make subsidies explicit
- Don't have time: Universal Service deadline 5/8/97; Interconnection deadline is 7/1/97

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Universal Service Should Cover

- Residence exchange
- Local usage (100-150 calls)
- Touch-Tone service
- Access to E911
- Access to Operator Services
- Access to Directory Assistance

Joint Board/ FCC Establish Cost of Universal Service

State Approved TSLRIC Study

or

Nationwide Proxy Model until State Commission Approves Study

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Actual Costs Form the Only Equitable Basis for Establishing Universal Service Support

However, if:

a) Court upholds the FCC, and

b) FCC intends to continue the use of TELRIC; then NYNEX proposes the following process for Price Cap companies:

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Necessary Linkage between TSLRIC and TELRIC Network Elements

TSLRIC = TELRIC plus Retail Costs

a) TELRIC = Loop
Port
Local Switching (100-150 Calls)
Transport and Terminating Access
Access to E911, Operator Services and Directory Assistance

b) Forward Looking
Retail Costs = State Approved $ per line to Cover Customer Care Costs.

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There is Important Linkage Between Unbundled Network Elements and USF Support:

Geographical Deaveraging Must be the Same.

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Joint Board/ FCC Establishes Benchmark Rate

- 1% of median household income.
  - If data are available, adjust for regional cost of living variations.
- Need to use aggregated county data, not state data, to recognize significant variations of incomes within a State.
- Use targeted support for low income subscribers within the county.

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Example: Why County, Not State?

	BCM2 Cost	1% Income
NYNEX New York Avg.	$25.05	$26.58
NYNEX New York		
NYC	18.03	24.72
Other Major Cities	24.18	33.76
Urban	26.29	30.72
Suburban	29.47	25.02
Rural	42.74	20.52

Note:
BCM2 not true TSLRIC Model.
Median Income of zones based upon county data.

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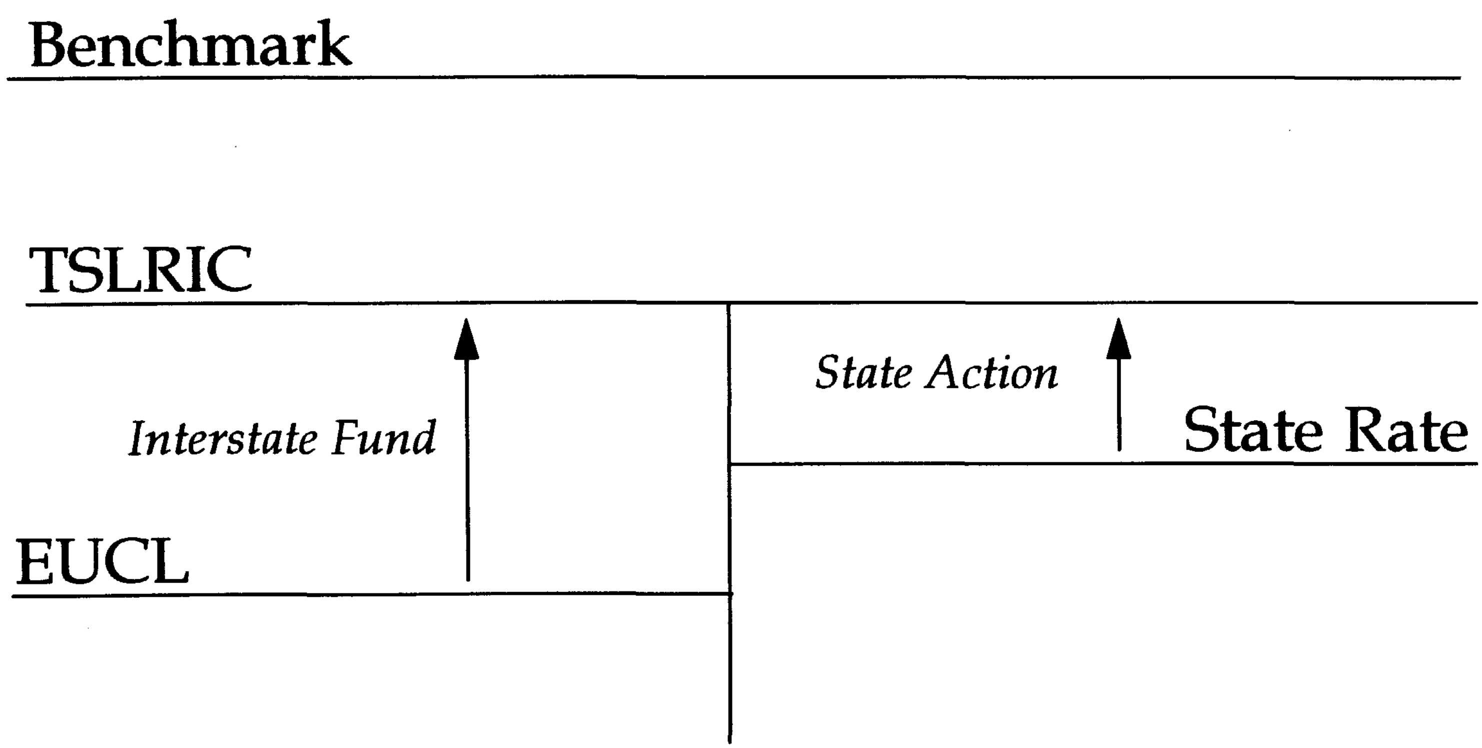
Urban Example



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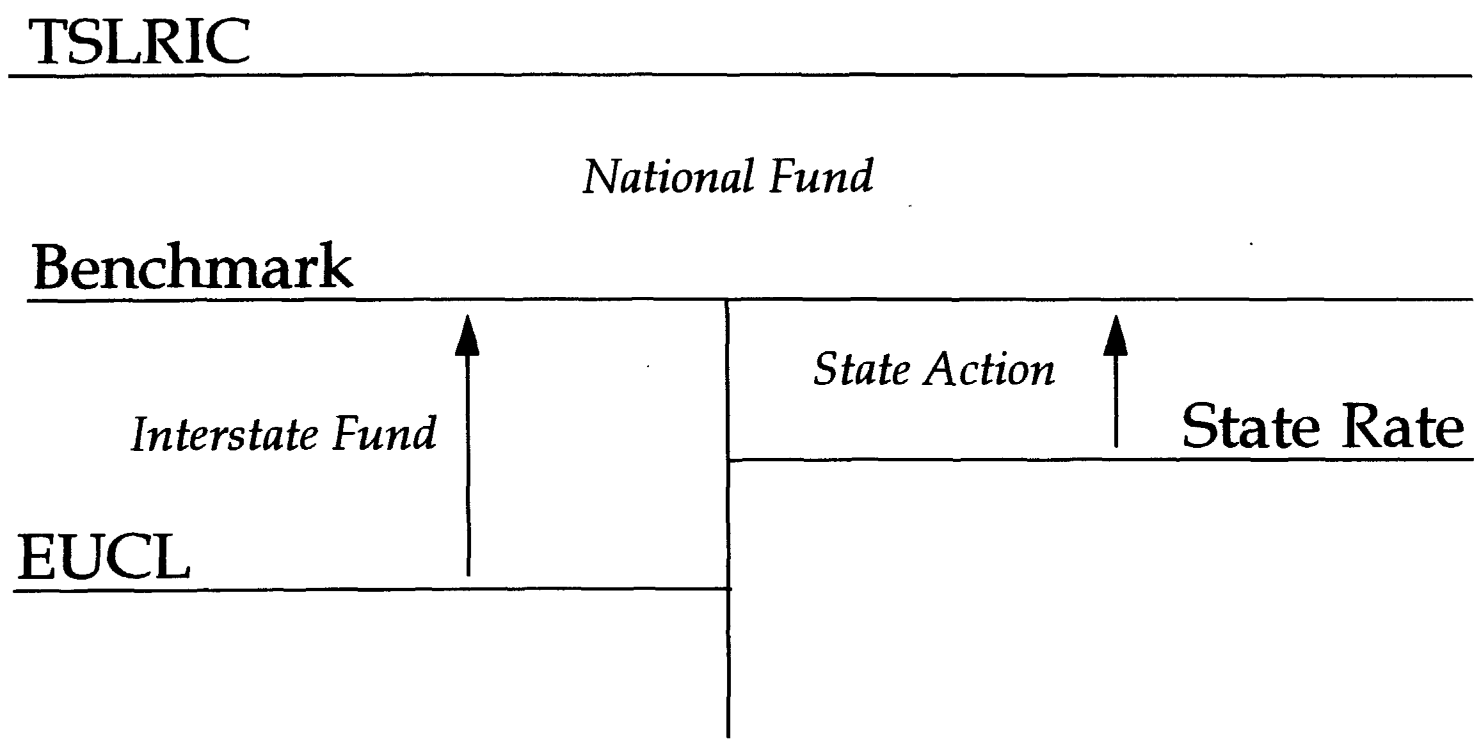
Rural Example



The Options:

- Jurisdictional funds (Federal and State)
- National fund covers total intrastate and interstate

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If Joint Board/FCC pursues total national fund, then USF revenues should be split based upon percentage of interstate access to the combination of inter- and intrastate access, intrastate toll and vertical services.

PERCENT SPLIT OF USF

	Intrastate	Interstate
NYNEX	54%	46%
New York	54%	46%
Massachusetts	55%	45%
Vermont	53%	47%
New Hampshire	50%	50%
Maine	70%	30%
Rhode Island	40%	60%

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Use of USF Monies

Increased USF monies should be used to reduce interstate access charges (e.g., CCL, RIC, Local Switching)

and

Intrastate access charges, toll and vertical services

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Allocating and Collecting USF

To be competitively neutral, allocation and collection of USF must be linked.

A plan that places an unequal burden on retail customers of different companies

IS NOT

a competitively neutral mechanism.

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Likewise: Hiding Universal Service Funding in Customers Rates is Implicit, Not Explicit Funding

Solution:

Need a uniform surcharge on retail revenues.

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Example: USF = $500 Million

(Two Companies)

($ Millions)	***Carrier A***	***Carrier B***
Retail Revenue	2,000	2,000
Carrier Revenue	1,000	-
Gross Revenue	3,000	2,000

Case 1: Use Retail Revenues. Total = $4,000 million

Carrier A pays $250 million and Carrier B pays $250 million

Surcharge Retail:

Carrier A = 12.5% and Carrier B = 12.5%

Explicit and Competitively Neutral

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Example: USF = $500 Million
(Two Companies)

Case 2: Use Gross Revenues

Carrier A pays $300 million and Carrier B pays $200 million
Collection:

a) Both Apply Surcharge to End Users

Carrier A = 15% and Carrier B = 10%

b) Carrier A Applies Surcharge to All Revenues, Required End User Surcharge:

Carrier A = 10% and Carrier B = 15%

Not Competitively Neutral

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